

# PERAC AUDIT REPORT



## Webster Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2005



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 20, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Webster Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the finding presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS

### **I. Annuity Savings Fund:**

The Annuity Savings Fund general ledger account does not balance to the Membership File Supplemental Schedule. The Supplemental Schedule lists the balance of each member's Annuity Savings Account and must agree with the Annuity Savings Fund Account. This issue is caused when changes made to member's accounts do not agree with the entries made to the general ledger. This was also a finding in the previous audit report.

**Recommendation:** The administrator must ensure that the general ledger agrees with the Supplemental Schedule before the membership module is closed at year-end. All variances must be resolved to ensure member's accounts are correct.

### **Board Response:**

The secretary has taken necessary steps to ensure that the General Ledger agrees with the Supplemental Schedule of member accounts.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2005	2004
<b>Net Assets Available For Benefits:</b>		
Cash	\$1,978,900	\$640,501
Short Term Investments	0	0
Fixed Income Securities	0	0
Equities	5,029,269	5,574,721
Pooled Short Term Funds	0	0
Pooled Domestic Equity Funds	2,369,243	2,230,544
Pooled International Equity Funds	1,339,623	1,206,591
Pooled Global Equity Funds	0	0
Pooled Domestic Fixed Income Funds	4,340,368	4,565,582
Pooled International Fixed Income Funds	0	0
Pooled Global Fixed Income Funds	0	0
Pooled Alternative Investment Funds	48,041	446
Pooled Real Estate Funds	1,005,858	830,086
Pooled Domestic Balanced Funds	0	0
Pooled International Balanced Funds	0	0
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	2,193	732
Accounts Receivable	1,633	2,218
Accounts Payable	(23,182)	(19,568)
<b>Total</b>	<u>\$16,091,946</u>	<u>\$15,031,852</u>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$5,540,653	\$5,088,821
Annuity Reserve Fund	2,042,219	2,029,859
Pension Fund	(371,724)	(49,782)
Military Service Fund	1,916	1,916
Expense Fund	0	0
Pension Reserve Fund	8,878,880	7,961,038
<b>Total</b>	<u>\$16,091,946</u>	<u>\$15,031,852</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	4,943,447	1,902,257	467,529	1,905	0	6,276,603	13,591,741
Receipts	655,739	58,392	1,232,018	11	168,147	1,683,406	3,797,713
Inter Fund Transfers	(402,814)	401,785	0	0	0	1,029	0
Disbursements	(107,550)	(332,575)	(1,749,329)	0	(168,147)	0	(2,357,602)
Ending Balance (2004)	5,088,821	2,029,859	(49,782)	1,916	0	7,961,038	15,031,852
Receipts	765,278	59,505	1,421,955	0	188,498	917,843	3,353,078
Inter Fund Transfers	(188,636)	188,636	0	0	0	0	0
Disbursements	(124,810)	(235,781)	(1,743,897)	0	(188,498)	0	(2,292,985)
Ending Balance (2005)	<u>\$5,540,653</u>	<u>\$2,042,219</u>	<u>(\$371,724)</u>	<u>\$1,916</u>	<u>\$0</u>	<u>\$8,878,880</u>	<u>\$16,091,946</u>

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Annuity Savings Fund:</b>		
Members Deductions	\$593,120	\$576,097
Transfers from Other Systems	130,399	38,983
Member Make Up Payments and Re-deposits	12,944	13,907
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>28,815</u>	<u>26,751</u>
Sub Total	<u>765,278</u>	<u>655,739</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>59,505</u>	<u>58,392</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems	43,341	2,807
Received from Commonwealth for COLA and Survivor Benefits	78,613	78,613
Pension Fund Appropriation	<u>1,300,000</u>	<u>1,150,598</u>
Sub Total	<u>1,421,955</u>	<u>1,232,018</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>11</u>
Sub Total	<u>0</u>	<u>11</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>188,498</u>	<u>168,147</u>
Sub Total	<u>188,498</u>	<u>168,147</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	7,915	7,468
Pension Reserve Appropriation	0	0
Interest Not Refunded	821	0
Miscellaneous Income	0	0
Excess Investment Income	<u>909,107</u>	<u>1,675,937</u>
Sub Total	<u>917,843</u>	<u>1,683,406</u>
<b>Total Receipts</b>	<u>\$3,353,078</u>	<u>\$3,797,713</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$119,539	\$52,516
Transfers to Other Systems	5,271	55,034
Sub Total	<u>124,810</u>	<u>107,550</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	235,781	332,575
Option B Refunds	0	0
Sub Total	<u>235,781</u>	<u>332,575</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	1,281,669	1,226,372
Survivorship Payments	77,894	81,984
Ordinary Disability Payments	31,514	30,850
Accidental Disability Payments	258,492	296,782
Accidental Death Payments	14,360	16,213
Section 101 Benefits	0	0
3 (8) (c) Reimbursements to Other Systems	79,968	97,128
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	0	0
Sub Total	<u>1,743,897</u>	<u>1,749,329</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	0	0
<b>Expense Fund:</b>		
Board Member Stipend	200	2,350
Salaries	60,080	45,955
Legal Expenses	5,491	372
Medical Expenses	0	0
Travel Expenses	18	52
Administrative Expenses	11,149	11,071
Furniture and Equipment	0	0
Management Fees	79,059	67,723
Custodial Fees	7,500	9,375
Consultant Fees	25,000	31,250
Rent Expenses	0	0
Service Contracts	0	0
Fiduciary Insurance	0	0
Sub Total	<u>188,498</u>	<u>168,147</u>
<b>Total Disbursements</b>	<u>\$2,292,985</u>	<u>\$2,357,602</u>



# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004
<b>Investment Income Received From:</b>		
Cash	\$4,572	\$15,723
Short Term Investments	13,734	2,434
Fixed Income	524,693	398,621
Equities	34,482	30,184
Pooled or Mutual Funds	57,049	65,165
Commission Recapture	0	0
<b>Total Investment Income</b>	<u>634,531</u>	<u>512,127</u>
<b>Plus:</b>		
Realized Gains	571,350	348,793
Unrealized Gains	3,164,980	3,255,484
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>2,193</u>	<u>732</u>
Sub Total	<u>3,738,523</u>	<u>3,605,009</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(460,689)	(703,679)
Unrealized Loss	(2,725,708)	(1,429,913)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(732)</u>	<u>(54,304)</u>
Sub Total	<u>(3,187,129)</u>	<u>(2,187,896)</u>
<b>Net Investment Income</b>	<u>1,185,924</u>	<u>1,929,239</u>
<b>Income Required:</b>		
Annuity Savings Fund	28,815	26,751
Annuity Reserve Fund	59,505	58,392
Military Service Fund	0	11
Expense Fund	<u>188,498</u>	<u>168,147</u>
<b>Total Income Required</b>	<u>276,817</u>	<u>253,302</u>
Net Investment Income	<u>1,185,924</u>	<u>1,929,239</u>
Less: Total Income Required	<u>276,817</u>	<u>253,302</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$909,107</u>	<u>\$1,675,937</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,978,900	12.3%	
Short Term	0	0.0%	
Fixed Income	0	0.0%	80%
Equities	5,029,269	31.2%	60%
Pooled Short Term Funds	0	0.0%	
Pooled Domestic Equity Funds	2,369,243	14.7%	
Pooled International Equity Funds	1,339,623	8.3%	
Pooled Global Equity Funds	0	0.0%	
Pooled Domestic Fixed Income Funds	4,340,368	26.9%	
Pooled International Fixed Income Funds	0	0.0%	
Pooled Global Fixed Income Funds	0	0.0%	
Pooled Alternative Investment Funds	48,041	0.3%	
Pooled Real Estate Funds	1,005,858	6.2%	10%
Pooled Domestic Balanced Funds	0	0.0%	
Pooled International Balanced Funds	0	0.0%	
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
<b>Grand Total</b>	<b><u>\$16,111,302</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Webster Retirement System was 7.08%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Webster Retirement System averaged 4.79%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Webster Retirement System was 9.01%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Webster Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 3, 2006

16.08 In accordance with Investment Guideline 99-2, the Webster Retirement Board is authorized to make a modest modification to its small/mid cap core equity account managed by Independence Investments. The Board will transfer its assets from one composite separately managed account to two commingled funds, one for small cap and one for mid cap. In addition to gaining operational efficiencies, the Board expects that this structure will enable it to better monitor the performance of the overall account. There is not change in investment universe or in strategy and the overall account is still run by Independence Investments' small/mid cap portfolio management team.

December 10, 2003

16.08 The Webster Retirement Board is authorized to modify its investment management mandate with Loomis, Sayles & Company. After many years of utilizing Loomis Sayles as a balanced account manager, the Board has voted to retain Loomis only for fixed income. The Board will utilize a commingled fund, the Loomis Sayles Investment Grade Bond Fund that has the same strategy and benchmark as the existing account. The Board has long been satisfied with Loomis Sayles' overall level of service.

March 16, 1994

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market or 50% of the total portfolio valued at cost including international equities which shall not exceed 10% of the portfolio valued at market.

June 26, 1991

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

20.07(9) Commingled real estate funds as a separate asset category shall not exceed 10% of the total book value of the portfolio at the time of purchase and may include a separate account contract provided that:

(a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and (b) such personnel retain authority in the decision making process, and

(c) should an investment in a separate account result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Webster Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Webster Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

September 2, 2004

#### Buy-backs

An active police officer [who is a member of the retirement system] may buy back his or her permanent intermittent time, provisional full time, or provisional part time employment. If he or she wishes to pay back into the system for previous time worked, the calculation of creditable service will be based on actual hours worked. Overtime or extra paid details are not calculated in the buyback. Auxiliary and/or reserve status is not applicable to buy back.

January 13, 2004

To allow call firefighters to receive one (1) year of creditable service for each full year of service in the Webster Fire Department, provided they are call fire fighters with a stated weekly, monthly, or semi-annual rate of compensation. Call fire fighters of the Town of Webster not previously allowed into the retirement System may request membership, and may buy back the time they were employed as a call firefighter and not eligible for membership, provided said member pays back into the system an amount equal to that which would have been deducted from wages, plus interest. Base salary only shall be considered regular compensation for deduction purposes and in the calculation of retirement benefits. The buy backs may be made in regular weekly or monthly payments, through payroll deduction, or other regular payments convenient for the member, but must be paid in full before retirement.

September 2, 2004

An active police officer (who is a member of the retirement system) may buy back his or her permanent intermittent time, provisional full time, or provisional part time employment. If he or she wishes to pay back into the system for previous time worked, the calculation of creditable service will be based on actual hours worked. Overtime or extra paid details are not calculated in the buy back. Auxiliary and/or reserve status is not applicable to buy back.

August 20, 2001

#### Creditable Service

In all cases involving part-time, provisional, temporary, temporary provisional, per diem, seasonal, or intermittent employment or service of any employee in any governmental unit prior to membership, said member shall be entitled to buy back said service, provided that said member subsequently became a member of the town of Webster Contributory Retirement System and said member pays back into the system an amount equal to that which would have been deducted from wages plus interest. Creditable service shall be computed to credit the member for that proportion of a normal year which the number of hours actually worked during that year bears to the normal working hours from the department under which the employee worked.

August 2, 1999

#### Buy-Backs

Any member eligible to purchase military service under the provisions of Chapter 71 of the Acts of 1996 must render payment for the cost of such military service buyback in a lump sum payment or two installments, either of which must be made within a 12 month period commencing with the date of acceptance of the application by the Board.

January 19, 1999

#### Membership

##### Membership/eligibility:

Membership is required for all full-time permanent Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 31½ hours per week. A full-time permanent town position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence. Town of Webster employees, excluding School Department employees, who are scheduled to work a minimum of 20 hours but less than 31 1/2 hours per week are considered permanent part-time employees. Such employees shall become members of the Webster Contributory Retirement System upon the completion of six months of calendar service. A permanent part-time position shall be considered any position scheduled for continuous employment for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence.

All part-time, provisional, temporary, temporary provisional, seasonal or intermittent employees who are scheduled to work less than 20 hours per week and/or less than 52 calendar weeks of uninterrupted employment unless for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence are not eligible for membership into the Webster Retirement System.

Call Firefighters are not eligible for membership into Webster Retirement System.

March 27, 1997

#### Creditable Service Part Time Eligibility

A person must work a minimum of 20 hours per week in continuous employment in a permanent position for a period of 52 calendar weeks during a year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence in order to be eligible for membership.

A school department employee must work a minimum of 20 hours per week in continuous employment in a permanent position during a school year uninterrupted except for required military service, authorized paid vacation, sick, personal leave or other authorized leave of absence in order to be eligible for membership.

June 14, 1996

Membership

New police academy recruits are not eligible to become members of the Webster Contributory Retirement System until successful completion of the Police Academy.

November 6, 1991

Membership

All permanent full-time employees are required to enroll as a member of the Webster Contributory Retirement Systems immediately upon the commencement of employment.

**(AMENDED June 14, 1996 and January 19, 1999).**

## NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Pamela Regis

Appointed Member: Paul J. Minarik                      Term Expires: Indefinite

Elected Member: Louis Polletta Term Expires: 06/30/07

Elected Member: Eleanor P. Doros Term Expires: 06/30/09

Appointed Member: Daniel Bonnette                      Term Expires: 12/31/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian: )  
 Ex-officio Member: ) \$50,000,000 Fiduciary  
 Elected Member: ) \$1,000,000 Fidelity  
 Appointed Member: ) MACRS Policy  
 Staff Employee: )



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2006.

The actuarial liability for active members was	\$15,695,131
The actuarial liability for retired members was	<u>18,107,454</u>
The total actuarial liability was	33,802,585
System assets as of that date were	<u>15,223,489</u>
The unfunded actuarial liability was	<u>\$18,579,096</u>
 The ratio of system's assets to total actuarial liability was	 45.0%
As of that date the total covered employee payroll was	\$6,804,612

The normal cost for employees on that date was	8.20% of payroll
The normal cost for the employer was	5.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by Group

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2006	\$15,223,489	\$33,802,585	\$18,579,096	45.0%	\$6,804,612	273.0%
1/1/2004	\$14,039,774	\$31,369,331	\$17,329,557	44.8%	\$6,647,994	260.7%
1/1/2001	\$13,772,600	\$25,041,729	\$11,269,129	55.0%	\$5,948,701	189.4%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Retirement in Past Years</b>										
Superannuation	3	7	5	6	4	4	10	4	0	6
Ordinary Disability	0	0	1	0	0	0	0	0	0	0
Accidental Disability	0	3	1	0	1	0	0	0	0	0
<b>Total Retirements</b>	3	10	7	6	5	4	10	4	0	6
Total Retirees, Beneficiaries and Survivors	115	121	124	122	120	126	126	125	126	134
Total Active Members	217	212	214	215	206	229	193	198	236	241
<b>Pension Payments</b>										
Superannuation	\$554,936	\$645,918	\$736,300	\$778,324	\$834,287	\$901,972	\$925,110	\$1,145,029	\$1,226,372	\$1,281,669
Survivor/Beneficiary Payments	72,955	79,789	77,857	80,331	88,279	66,285	82,541	87,414	81,984	77,894
Ordinary Disability	7,299	7,503	17,445	2,776	28,354	28,594	29,549	30,195	30,850	31,514
Accidental Disability	112,380	163,670	156,096	178,522	197,145	210,425	231,180	233,470	296,782	258,492
Other	<u>103,949</u>	<u>91,732</u>	<u>98,153</u>	<u>86,996</u>	<u>100,394</u>	<u>93,522</u>	<u>100,599</u>	<u>101,413</u>	<u>113,340</u>	<u>94,328</u>
<b>Total Payments for Year</b>	<u>\$851,519</u>	<u>\$988,612</u>	<u>\$1,085,851</u>	<u>\$1,126,949</u>	<u>\$1,248,459</u>	<u>\$1,300,798</u>	<u>\$1,368,979</u>	<u>\$1,597,521</u>	<u>\$1,749,329</u>	<u>\$1,743,897</u>

PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)